DIRECT TESTIMONY OF

GREG S.K. NESS

IN

DOCKET NO. 2017-281-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Greg Ness. I am the General Counsel for Southern Current LLC. My business address is 1519 King Street, Charleston SC 29405.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am providing testimony on behalf of Southern Current LLC and its wholly owned affiliates.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE AS IS RELATED TO THE SOLAR INDUSTRY.

A. I graduated summa cum laude from Auburn University with a B.S. in Biomedical Science. After Auburn, I graduated with honors from Tulane University with a M.S. in Molecular Biology, as well as from Vermont Law School with a dual degree in Environmental Law and Environmental Science. Prior to working with Southern Current, I served as Deputy General Counsel and lead developer at Asheville, North Carolina based FLS Energy, Inc. ("FLS"), which was recently acquired by Cypress Creek Renewables, LLC. During my tenure at FLS, I helped transition the company from a solar thermal and residential installer/asset owner to a leading participant in the Southeastern QF market; and was instrumental in growing FLS from $2 million to over $300 million in annual revenue, and facilitated approximately $1 billion in project and corporate finance. Prior to entering the

solar energy industry, I worked as a corporate attorney for one of the largest commercial real estate law firms in the Southeast, and as a law clerk at the Environmental Protection Agency headquarters in Washington, D.C. Additionally, I co-founded a waste-to-energy firm based in Aachen, Germany and a residential solar installation company in Dakar, Senegal.

Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES AT SOUTHERN CURRENT?

A. At Southern Current, I primarily represent the project development and operations teams throughout the project life cycle. During my tenure at Southern Current, I have facilitated the development of between 150 to 200 MW of late stage solar assets with expected commercial operation dates in 2018, and approximately 2 GW of early to mid-stage solar assets with 2019-2022 expected commercial operation dates. Additionally, Southern Current or its predecessor companies, Sustainable Energy Solutions, LLC & Solbridge Energy, LLC, developed and sold approximately 400 MW of solar assets that have been commissioned or will be commissioned in the next several quarters. Southern Current focuses its development efforts primarily in the Southeastern United States.

In my current role, I provide substantive expertise in all facets of solar energy project development, including negotiation of solar land leases, zoning matters, EPC agreements, power purchase agreements, subcontracts, Renewable Energy Certificate ("REC") purchase agreements, Letters of Intent for asset membership interest sales and the Membership Interest Purchase Agreements. In addition, I assist Southern Current's Chief

Development Officer and CFO with the placement and structuring of equity and debt financing. I have held my current position for approximately one and a half years.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION OR ANY OTHER PUBLIC SERVICE COMMISSION?

A. I have not provided testimony before this commission; however, I have provided testimony before the North Carolina Utilities Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to explain why the Commission should require Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP") to offer qualifying facilities ("QFs") power purchase agreements with durations that are reasonably financeable, and why the give-year PPAs currently being offered by Due are insufficient for that purpose.

Q. WHAT IS THE PROCESS USED BY SOUTHERN CURRENT WHEN SELLING ITS ASSETS?

A. Southern Current has a highly regarded project development team that takes a QF solar project from conception up to, in certain cases, commissioning. Southern Current offers complete in-house site selection, legal support, system design and engineering, which creates substantially de-risked solar energy assets that are offered for sale at market prices. While Southern Current has historically developed and held assets to what is often referred to as the notice-to-proceed (with construction) or "NTP" stage, Southern Current strategically capitalizes upon its solar PV experience to hold assets to commissioning or, in a few cases, to pursue long-term asset ownership.

Q. WHAT ARE SOME OF THE FACTORS THAT ARE IMPORTANT FOR POTENTIAL PURCHASERS OF YOUR QF SOLAR ASSETS?

A. Some of the factors that Southern Current can control through a robust development process include: site selection, environmental due diligence, providing financeable real property agreements for the underlying site, and selecting equipment that is financially bankable. Provided that the QF project itself is de-risked from a title, real property and environmental perspective, the credit quality of the off-taking utility, and the avoided cost pricing in conjunction with the tenor (duration) of the power purchase agreement, are the remaining key considerations for any investor/debt provider underwriting a QF project investment or acquisition. As described in greater detail below, it is my experience that without a high-quality off-taker and long-term certainty as to the QF project's contracted cash flows at a defined price, Southern Current can't attract buyers for our projects in the current market, which consequently makes the projects unfinanceable. To date, the projects which Southern Current has either sold or attracted indicative offers for have had power purchase agreements with power purchase agreement tenors of at least ten (10) years.

Q. WHY ARE PPA'S HAVING A TENOR GREATER THAN 5 YEARS NECESSARY TO GIVE QF's REASONABLE ACCESS TO CAPITAL?

A. Long-term contracts or power purchase agreements ("PPAs") enable investors to calculate return on investment with certainty and instill confidence that the borrower will be in a position to repay any loan. QF projects are typically financed through a combination of debt (construction and/or permanent), tax credit equity, and sponsor equity (internal capital). The degree of uncertainty surrounding the revenue stream of a QF project impacts

the amount of debt financing it can secure, as well as the cost of that debt financing. The greater the uncertainty in the contracted revenue stream, the greater the likelihood that a QF project will be able to attract less debt and will require more expensive sponsor equity. If the term of the contracted revenue stream of a QF project is uncertain, and uncontracted cash flows are significant, such as the case with a PPA having a 5-year tenor, the QF solar project will be more difficult, or in my experience, impossible to finance

Generally speaking, like most power producing assets, QFs are financed over the life of the asset. For example, under a 20-year term, the QF likely will be obligated to service debt and equity throughout the term of the PPA. Indeed a 20-year term facilitates the longer amortization schedule necessary with the lower revenue generated by current avoided cost and REC rates. In my experience, a 5-year PPA would allow the QF to finance the project only over a corresponding 5-year period. After such a 5-year period, any debt provider, equity investor or asset purchaser would have to be comfortable with merchant or PURPA avoided cost exposure, which I've observed results in less debt available for a QF project and conversely more equity required in its capital stack. In my experience working with shorter, 10-year PPAs, any capital provided tends to be more costly as a reflection of the greater uncertain associated with uncontracted revenue and merchant risk.

Additionally, with respect to the tax credit equity component of the external capital stack, it's our experience that it is difficult if not impossible for such tax credit equity investors to provide capital unless the PPA tenor is longer than what is often referred to in the industry as the "Compliance Period", which means the period commencing upon the date

the QF solar asset is commissioned and ending five (5) years from such placed-in-service date, and during which the investment tax credit is subject to recapture or forfeiture for certain events/activities as described in the Internal Revenue Code. We are in an environment of declining rates paid to QFs for both output and RECs, as well as increasing uncertainty regarding the financing that can be secured from the tax incentives granted to renewable energy projects.

Finally, notwithstanding rate trends or the current political climate, many QFs rely on variable resources, and, therefore, based on current technology, have no control over how much energy is produced and, in turn, how much revenue is generated.

For all of these reasons, reducing the cost to develop the QF, such as through a 15-year or 20-year PPA, increases the possibility that a project will be cost effective and will actually be developed. Conversely, reducing the maximum term of an available PPA to five years will be difficult, if not impossible to reasonably finance in the current market.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.